



International Agricultural Trade

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Dairy, Livestock, & Poultry Trade Update

Meat-and-Bone Meal Down For The Count In The European Union?

Late in 2000, the European Union (EU) experienced a resurgence of bovine spongiform encephalopathy (BSE) outbreaks, which were linked to the feeding of BSE-contaminated Meat-and-Bone Meal (MBM) to cattle. Today, Sweden stands as the only EU member state which has not detected a case of BSE. In December 2000, the EU instituted a 6-month ban on the feeding of MBM to any farmed animal kept for food production (Decision 2000/766/EC). Extended in June 2001, this "temporary" ban is poised for another extension. With use banned and exports at a standstill, the EU is faced with a massive MBM disposal problem.

Total annual EU animal meal production of about 3 million tons includes about 2.5 million tons of MBM. This latter amount roughly equals the EU's combined incineration capacity available for MBM disposal. With a 1.1-million ton backlog of MBM waiting for disposal above annual production, considerable pressure remains on the European Commission to find solutions to deal with MBM. The United States produces approximately 2 million tons of MBM annually, but with no BSE cases found, MBM use and exports continue.

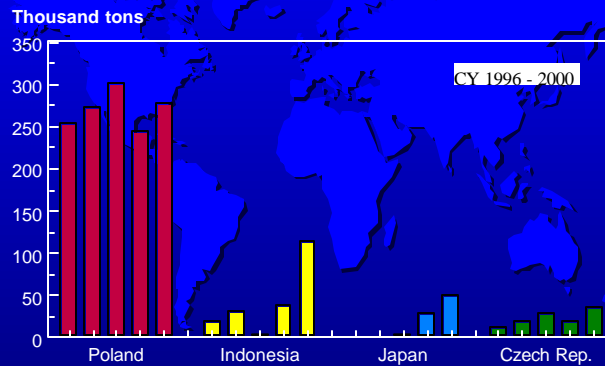
MBM is not expected to make a comeback as a primary ingredient in EU animal feed, even if the ban on its use is lifted. The European rendering industries are searching for alternative outlets for their products, but member states, the European Commission, and various industries are facing permanent adjustments in the way they deal with slaughter by-products. Any positive trade impact on U.S. exports arising from this situation is occurring in vegetable proteins such as soybean-meal.

MBM - A Product in Search of a Home

In late 2000, a resurgence of BSE in the EU dealt MBM a potential knock-out blow. Prior to the BSE and dioxin crises, the European rendering industry was a low-profile segment of the larger livestock and meat production sector. Renderers provided MBM and related products to a variety of industries or exported these products around the world.¹ MBM was a small but integral component of animal feed in the EU, where it was a vital source of protein. Animal feeds in the United States, in contrast, usually contain vegetable-based protein, such as soybean meal. Other EU industries utilizing MBM included the pet food industry, one of the few which continues to utilize limited amounts of MBM in its products.

¹For more information, see "Does the EU's BSE Crisis Present Opportunities for U.S. Exporters?" available at www.fas.usda.gov/dlp2/highlights/2000/wmr_1201.html

European Union Meat-and-Bone Meal Exports To Major Markets



The feeding of MBM to ruminants was forbidden EU-wide in 1994, although some member states had previously implemented their own national legislation. Early in 2001, the Commission extended the MBM feeding ban to include pigs and poultry. With this extension of the ban, member states faced serious problems concerning the disposition of MBM.

With most domestic use banned for an initial 6 months and export markets closed, the storage of MBM became a

significant problem for a number of EU member states. The main method of MBM disposal, once begun, was incineration. Although the EU's annual incineration capacity is approximately equal to its annual MBM production, enabling it to adequately destroy what is produced in a year, it could not handle the backlog of MBM stocks of 1.1 million tons. These overhanging stocks represent the ongoing crisis facing the EU.

Germany, with more incineration capacity than needed for its own MBM, is serving as a destruction point for shipments from neighboring member states lacking sufficient storage or incineration means. The Netherlands ships about 65 percent of its MBM to Germany for destruction. The incineration is being conducted by private companies, mainly electric utilities and construction material companies. This disposal initiative represents a significant and ongoing challenge for the EU, as the production of MBM continues apace with the slaughter of livestock.

With the Animal Feed Market Gone, MBM Stays Down for the Count

As the "temporary" ban continues, a growing number of observers question the comeback of MBM into mainstream use in the EU's animal feed industries. Feed industries in some member states are not opposed to using MBM again, once they are assured that adequate legislation is in place to ensure that MBM production is safe. However, even then, MBM use would likely come with many restrictions (among them a species-to-species feeding prohibition) and, most importantly, there could be little to no demand for the product. Use by the feed industry will depend not only on government regulations but also on end-user consumers of meat. For example, the feed industry in Germany is against lifting the MBM ban as its clientele, including the powerful farmers' union, is conscious of *its* customers' preferences, who have moved away from even perceived questionable health issues.

Implementation Deficiencies Doomed Early BSE-Containment Efforts

The dioxin scandal in Belgium in 1999 and the resurgence of BSE in 2000 point toward widespread shortcomings in previous feeding restrictions in the EU. These shortcomings pushed the Commission to

extend these regulations to include banning MBM for *all* farmed animals, including pigs and poultry. This ban is not likely to be rescinded until two new pieces of EU legislation are passed, the Animal By-Products (2000/0259(COD)) and the Transmissible Spongiform Encephalopathy (EC 999/2001) legislations. Passage of the Animal By-Products legislation is not expected before the end of 2002.

The disposal difficulties for MBM are only one of the problematic issues facing the EU: national aid schemes in the different member states have also become a serious issue of contention, as member states provide different levels of assistance to their industries. Whereas Germany has a mechanism to compensate their rendering industries for the additional cost of the removal of specified risk material and MBM storage and incineration costs, other member states do not. This is creating competitive inequities within the EU as rendering companies from member states with generous aid schemes have lower production costs compared to some of their counterparts in other member states.

Can Rebounding EU Beef Consumption Lift MBM Off the Floor?

In the wake of the BSE and Foot-and-Mouth disease crises, beef consumption in the EU for 2001 was estimated by USDA in October 2001 to finish the year down 12 percent compared to 2000. With consumption expected to have rebounded more quickly than originally estimated, the final consumption drop is expected by some observers to have been somewhat less than 10 percent. In 2002, EU exports of beef are forecast to rebound from 2001 but will nevertheless need some image-polishing. The MBM ban may be a means to promote EU beef as “MBM-free,” i.e., not fed MBM. The Commission is also considering “educational” campaigns for EU consumers to include reference to the MBM ban. In this regard, however, not all member states appear to be in agreement. Those against the current ban remaining in place are also against this type of promotion as it would be counterproductive to getting the ban lifted. They argue that promoting meat as MBM-free would seem an admission that MBM-feeding is unsafe. Another aspect that might render this type of marketing campaign futile is the very fact that all EU member states except Sweden now have BSE, and this could overshadow any advantage gained by the MBM-free slogan.

No Easy Solution in Sight...

What will the EU do with the MBM produced annually that can no longer be put into animal feed or exported? At present, incineration capacity to dispose of all that accumulates is inadequate to work off MBM supplies overhanging the EU. The European petfood industry is continuing to use MBM in its products, but they cannot consume nearly enough to compensate for the loss of the animal feed market. New uses are being pursued, such as burning MBM in power plants to produce electricity or burning it in kilns to produce construction materials such as cement. Yet, just as the EU finished 2001 sitting on a “mountain” of beef, it is also sitting on a mountain of MBM.

Increased U.S. Exports Possible, but They Won't be MBM

The current situation in the EU may indeed have positive effects on U.S. exports of agricultural products, but they are not likely to be for MBM or related rendered products. In a significant indication of the turn that the EU's animal feed industries have made toward new ingredients, soybean

meal imports have gone up sharply in many member states, most notably in France where they have nearly doubled.

The possibility of increased U.S. exports of MBM to the EU's former markets is also slim. Poland and the Czech Republic, the latter of which discovered its first case of BSE in 2001, took in just under half of the EU's MBM exports in 2000. Most of the Central and Eastern European countries are in various stages of accession to the EU and have begun following the EU's animal health regulations in preparation for accession. They are unlikely to jeopardize their position by maintaining current levels of MBM imports, let alone increase them, regardless of the source. Japan, another country notching its first BSE cases in 2001, took over 50,000 tons of MBM from the EU in 2000, but has now also instituted an import ban on MBM from all sources.

The EU's continuing difficulties with BSE and the subsequent ban on MBM are, in fact, having negative implications for U.S. exports of MBM. Third countries have begun emulating the EU's stance with respect to banning the use of all forms of MBM (including porcine and poultry) in all animal feeds, banning the import of all MBM from all sources, regardless of the BSE-status of the country of origin, and taking similar, often unwarranted, measures. Since there has been no BSE diagnosed in the United States, application of these restrictive measures to imports of MBM from the United States is not scientifically justifiable, but that has not stopped their application.

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